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CHARLES ELMORE CROPL
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Supreme Court of the United States

OCTOBER TERM, 1944

No. 302

ALLAN J. PATCH, Petitioner,

vs.

SOLAR CORPORATION.

On Petition for Writ of Certiorari to the
United States Circuit Court of Appeals
For the Seventh Circuit.

BRIEF IN OPPOSITION

G. A. YOUNGQUIST,
A. E. CARLSEN,
Attorneys for Appellant.

F. W. THOMAS,
FOWLER, YOUNGQUIST, FURBER,
TANEY & JOHNSON,
Of Counsel.

Hayward Brief Co., 646 Sexton Building, Minneapolis 15, Minn.

INDEX

PAGE

Opinions below 1

Jurisdiction 2

Questions presented 2

Statement 2

Argument 4

1. No federal question is involved 4

2. The decision is not in conflict with applicable local decisions 5

3. There is no special and important reason for review 7

CASES CITED

Alfred Marks Realty Co. v. Hotel Hermitage Co., 170 App. Div. 484, 156 N. Y. S. 179 (1915) 8

Ask Mr. Foster Travel Service, Inc., v. Tauck Tours, Inc., 43 N. Y. S. (2d) 674 (1943) 8

Berg v. Erickson (C. C. A. 8), 234 Fed. 817 10

Bottlers' Seal Co. v. Rainey, 225 N. Y. 369, 122 N. E. 200, 201 (1919) 8

Brown v. Oshiro, 58 Cal. App. (2d) 190, 136 Pac. (2d) 29 (1943) 8

Carr v. Whitebreast Fuel Company, 88 Iowa 136, 55 N. W. 205 (1893) 6

Cold Metal Process Co. v. United Engineering and Foundry Co., 107 F. (2d) 27, 32 (C. C. A. 3, 1939) 9

Columbus Railway & Power Co. v. Columbus, 249 U. S. 399 10

Critcher v. Linker, 169 Fed. 653 (C. C., W. D., Wis., 1909) 9

Denecke v. Henry F. Miller & Son, 142 Iowa 486, 119 N. W. 380 (1909) 9

Erdreich v. Zimmerman, 190 App. Div. 443, 179 N. Y. Supp. 829 (1920) 9

Foster Hose Supporter Co. v. Taylor, 184 Fed. 71 (C. C. A. 2, 1911) 9

Fritzler v. Robinson, 70 Iowa 500, 31 N. W. 61 (1886) 6

General American Tank Car Corporation v. Goree, 296 Fed. 32, 37 (C. C. A. 4, 1924) 9

Hess Brothers v. Great Northern Pail Co., 175 Wis. 465, 185 N. W. 542 (1921) 9

Krell v. Henry (1903), 2 K. B. 740 8

LaCumbre Golf and Country Club v. Santa Barbara Hotel Co., 205 Cal. 422, 271 Pac. 476 (1928) 8

Marshall v. Vicksburg, 15 Wall. 146 (1873) 9

McCoy v. New York Life Ins. Co., 219 Iowa 514, 258 N. W. 320 (1935) 9

New York Life Ins. Co. v. Stratham, 93 U. S. 24 10

Ohio Citizens Trust Co. v. Air-Way Electric Appliance Corp. (D. C., Ohio), 56 F. Supp. 1010 ..... 10, 11

Otto v. Orange Screen Co. (D. C., N. J.), 57 F. Supp. 134 11

Parrish v. Stratton Cripple Creek Mining and Development Co., 116 F. (2d) 207 (C. C. A. 10, 1940) 8

Slezak v. International Ticket Scale Corporation, 21 F. Supp. 688 (D. C., Del., 1937) 9
Societe Anonyme des Sucreries de Saint Jean v. Bull Insular Line, 276 Fed. 783 (C. C. A. 1, 1921) 9
Sola Electric Company v. Jefferson Electric Co., 317 U. S. 173 5
Standard Dental Mfg. Co. v. National Tooth Co., 95 Fed. 291 (E. D., Pa., 1899) 9
Standard Stoker Co., Inc., v. Brewster, 277 Fed. 783 (C. C. A. 7, 1921) 9
Thomson v. Thomson, 315 Ill. 521 10
Virginia Iron, Coal & Coke Co. v. Graham, 124 Va. 692, 98 S. E. 659 (1919) 8

TEXTS CITED

Restatement of the Law of Contracts, Sec. 288 7
Williston on Contracts (Rev. ed., 1938):
Section 838 9
Section 1931 8
Section 1954 8
Section 1957 9
Section 1958 9

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BRIEF IN OPPOSITION

OPINIONS BELOW

The opinion of the trial court (R. 38-40) is not yet reported. The opinion of the Circuit Court of Appeals (R. 56-61) is reported in 149 F. (2d) 558.

JURISDICTION

The judgment of the Circuit Court of Appeals was entered May 29, 1945 (R. 62) and petition for rehearing was denied June 22, 1945 (R. 63). The petition for certiorari was filed August 7, 1945, and notice of the filing served August 16, 1945. Petitioner invokes the jurisdiction of this Court under Section 240 (a) of the Judicial Code, as amended by the Act of February 13, 1925.

QUESTIONS PRESENTED

1. Whether frustration of performance of a contract licensing the use of a patent in the manufacture of washing machines by a governmental order of prohibition excused the licensee from obligation to pay the annual minimum royalty during the period of suspension.

2. Whether the licensee's failure to pay the minimum royalty because of the frustration gave the licensor the right to cancel the contract under a provision permitting cancellation for nonpayment of royalty.

STATEMENT

Petitioner is the owner of United States patent No. 1964440 issued June 26, 1934, covering a "link" transmission used in washing machines (R. 5, 41). On June 19, 1937, he granted to Beam Manufacturing Company an exclusive license for the manufacture and sale of the transmission to chain store, mail order and rubber tire companies (R. 2, 5, 41-42). The contract includes also a non-exclusive license for manufacture and sale to others, but that feature is not involved in this case. The agreement requires the licensee to pay petitioner for the exclusive license a royalty of 20c for each transmission manufactured and sold and a minimum royalty of $2500 for the year 1939 and $5,000 for subsequent years, and gives petitioner the right to terminate the license if the minimum royalty is not paid (R. 6, 8, 42); otherwise the license is to remain in force during the life of the patent (R. 8, 42).

The licensee advanced petitioner $3,000 to pay the cost of litigation involving the patent, spent at least $10,000 in developing other designs for use in the event petitioner should lose in that litigation, and, on the assumption it would enjoy the license granted to it, in addition

to agreeing to pay the minimum royalty it spent more than $100,000, over and above the cost of advertising and of building machines, in developing and promoting petitioner's invention as an exclusive feature (R. 31-32).

In 1938 the licensee began the manufacture of washing machines embodying the patented transmission and continued until May 15, 1942. During that period it paid petitioner in royalties $30,688.80, or $17,256.32 in excess of the minimum royalties. It paid petitioner (at the rate of 20c per unit) $3,902.40 for machines manufactured from January 1 to May 15, 1942 (R. 31). From and after that date the manufacture of washing machines was prohibited by a general limitation order issued by the War Production Board in March of 1942 (R. 13, 17, 32, 34-37, 43). At the time of trial respondent had orders for 67,000 machines and was prepared to increase its production by 50% above the 50,000 machines manufactured in 1941 (R. 33).

On March 29, 1943, petitioner served notice of cancellation of the license for failure to pay the full minimum royalty for 1942 (R. 3, 19-20, 43). The licensee advised petitioner that it refused to consider the notice an effective cancellation and that any attempt to license another would be regarded as a breach of contract (R. 3, 20-21). On June 21, 1943, petitioner made an agreement purporting to grant a license to Zenith Machine Company (R. 4, 26-30). Later the licensee assigned its rights under the license to respondent, Solar Corporation. In July of 1943 petitioner brought this action for a judgment declaring the license terminated and enjoining respondent from manufacturing and selling under the exclusive license (R. 2-4). Respondent answered denying that failure to pay the minimum royalty constituted a breach, denying that petitioner had performed his part

of the contract, and counterclaiming for a judgment declaring that it retained the license and enjoining petitioner from granting any license that would interfere with it (R. 10-15). Both parties moved for summary judgment on affidavits (R. 18-38). The trial court made findings of fact and conclusions of law (R. 41-44) and ordered judgment for petitioner which was entered September 28, 1944 (R. 44-45). On appeal to the Circuit Court of Appeals for the Seventh Circuit (R. 45) the judgment was reversed (R. 56-61).

ARGUMENT

There is no conflict with the decision of another Circuit Court of Appeals. It is claimed that an important question of local law has been decided in a way probably in conflict with applicable local decisions; at the same time it is claimed that the question is one of federal law which has not been but should be settled by this Court and also that a federal question has been decided in a way probably in conflict with the applicable decisions of this Court. No federal question is involved; the decision is not in conflict with local decisions; and the writ will issue only if the Court finds some other "special and important reason" for review.

1. No Federal Question Is Involved.

The complaint alleges that the action is one for a declaratory judgment under Section 274d of the Judicial Code as amended. The jurisdiction of the federal court is invoked by the allegations that the amount in controversy exceeds $3,000 and that the parties are citizens of different states (R. 2), as provided by Section 24 of the Code as amended. No allegation raises a federal question. In his brief below (p. 50) petitioner said that "fun-

damentally the problem is one of construction of the contract and a determination of what the parties intended."

The claim that a federal question is involved apparently rests on the defensive allegations and proof that the contract was frustrated by the operation of a War Production Board order prohibiting the manufacture of washing machines. Neither the validity nor the interpretation of the order is involved. Neither party contends that the order did not effectively prohibit the manufacture of washing machines. If frustration by operation of federal law raises a federal question, frustration by war would raise a question of international law, and frustration by act of God one of divine law. Plainly the only questions involved are the interpretation of the contract and the doing of equity (since the principles of equity are applicable to proceedings to cancel and to enjoin), and those questions remain the same whatever the cause of the frustration. The contention that the rule laid down in the case of Sola Electric Company v. Jefferson Electric Co., 317 U. S. 173, creates a federal question here (Pet. 19) is denied by the holding in that case that:

> "Local rules of estoppel which would fasten upon the public as well as the petitioner the burden of an agreement in violation of the Sherman Act must yield to the Act's declaration that such agreements are unlawful, and to the public policy of the Act which in the public interest precludes the enforcement of such unlawful agreements" (p. 177).

2. The Decision Is Not in Conflict With Applicable Local Decisions.

In the court below petitioner contended that since the governmental order did not prevent payment of the minimum royalty by the licensee the contract was not

frustrated and that default in making that payment brought the cancellation provision into operation. To meet this contention respondent cited decisions of the Supreme Court of Iowa among many others. Fritzler v. Robinson, 70 Iowa 500, denied recovery of a minimum royalty under a coal mining lease on the ground that contrary to the belief of the parties there was no coal on the land. Carr v. Whitebreast Fuel Company, 88 Iowa 136, denied recovery of royalty under a coal mining lease because it became impracticable to remove coal except at great expense. These cases present examples of, or are at least analogous to, frustration. The Iowa cases cited by petitioner are of a somewhat similar character although they relate more specifically to impossibility of performance than to frustration of the desired object or effect of the contract. This is quite different from saying that the contract is at an end, regardless of the nature of the contract and the character and duration of the frustration. The local decisions recognized the doctrine of frustration and the related rule of failure of consideration, and no local decision is cited or has been found that is in conflict with the decision in the case at bar to the effect that frustration may be temporary, that the liabilities under the contract are suspended for the time, and that the excuse for nonperformance will end when the cause of the frustration is removed.

3. There Is No Special and Important Reason for Review.

Petitioner rests his argument largely on the claim that the decision is against the weight of authority. This Court is not concerned with that unless the question is one of federal law. As has already been pointed out, no question of federal law is involved; and this Court will not correct mistakes and cannot resolve conflicts in decisions resting on local law.

The rule applied by the Court below is thus set forth in the Restatement of the Law of Contracts, Section 288:

> "Where the assumed possibility of a desired object or effect to be attained by either party to a contract forms the basis on which both parties enter into it, and this object or effect is or surely will be frustrated, a promisor who is without fault in causing the frustration, and who is harmed thereby, is discharged from the duty of performing his promise unless a contrary intention appears."

The "assumed possibility of a desired object * * * to be attained" in this case is the uninterrupted right to manufacture washing machines. This right formed the basis on which both parties entered into the agreement, and it has been suspended by governmental order. The object of the contract was thereby frustrated during the life of the order, without fault on the part of respondent. Respondent as promisor has by the order been deprived for the time being of the right to manufacture; hence it was discharged from performing its promise to pay royalties while the order was in effect. The right to cancel the license rests on respondent's default in payment of royalties, but since under the rule respondent was excused from making payment the right to cancel did not arise.

The consequence of frustration is thus set forth in Williston on Contracts, Section 1931:

> "The important question is whether an unanticipated circumstance has made performance of the promise vitally different from what should reasonably have been within the contemplation of both parties when they entered into the contract. If so, the risk should not fairly be thrown upon the promisor."

Performance here is vitally different from what was contemplated in that the licensee could not exercise its right under the license, and petitioner, though he could grant a license in form, could not vest in the licensee the enjoyment of the patent, and indeed could not have used it himself.

Even though literal performance of a contract is still possible, a party not at fault will be excused from performing if the object contemplated by the contract cannot be attained.

Krell v. Henry (1903), 2 K. B. 740;

Alfred Marks Realty Co. v. Hotel Hermitage Co., 170 App. Div. 484, 156 N. Y. S. 179;

Ask Mr. Foster Travel Service, Inc., v. Tauck Tours, Inc., 43 N. Y. S. (2d) 674;

Brown v. Oshiro, 58 Cal. App. (2d) 190;

Parrish v. Stratton Cripple Creek Mining and Development Co. (C. C. A. 10), 116 F. (2d) 207;

LaCumbre Golf and Country Club v. Santa Barbara Hotel Co., 205 Cal. 422;

Virginia Iron, Coal & Coke Co. v. Graham, 124 Va. 692;

Bottlers' Seal Co. v. Rainey, 225 N. Y. 369;

Williston on Contracts, Section 1954.

Frustration or failure of consideration may operate to suspend rather than terminate the contract and excuse performance during the period of suspension.

Erdreich v. Zimmerman, 190 App. Div. 443, 179 N. Y. S. 829;

Societe, etc., v. Bull Insular Line, 276 Fed. 783;

Hess Brothers v. Great Northern Pail Co., 175 Wis. 465;

General American Tank Car Corporation v. Goree (C. C. A. 4), 296 Fed. 32, 37;

Williston on Contracts, Sections 838, 1957, 1958.

This would be especially true where considerable money has been spent in reliance on the contract.

See Cold Metal Process Co. v. United Engineering and Foundry Co. (C. C. A. 3), 107 F. (2d) 27, 32.

Equity will not permit a forfeiture under such circumstances.

See Foster Hose Supporter Co. v. Taylor (C. C. A. 2), 184 Fed. 71;

Slezak v. International Ticket Scale Corporation (D. C. Del.), 21 F. Supp. 688.

Forfeitures are not favored.

See McCoy v. New York Life Ins. Co., 219 Iowa 514;

Denecke v. Henry F. Miller & Son, 142 Iowa 486;

Marshall v. Vicksburg, 15 Wall. 146;

Standard Dental Mfg. Co. v. National Tooth Co. (E. D., Pa.), 95 Fed. 291;

Critcher v. Linker (C. C., W. D., Wis.), 169 Fed. 653;

Standard Stoker Co., Inc., v. Brewster (C. C. A. 7), 277 Fed. 783.

The cases relied on by petitioner fall into several classes. Some involve leases where the leased property was useful for purposes other than the frustrated purpose contemplated by the parties. Some involve shipping charters where it would be impracticable to require performance at a later date; and in most of the charters considered the impossibility of the performance was specifically provided against. Some involve construction contracts where possible rise in costs of labor and materials over a period of time would make performance unduly burdensome. Some involve commercial enterprises where postponement of performance would be impracticable and unfair from a business point of view. Substantially all of them, including such cases as New York Life Ins. Co. v. Stratham, 93 U. S. 24, involve contracts in which time was of the essence and where suspension would operate to the disadvantage of one party and the advantage of the other. Others, such as Columbus Railway & Power Co. v. Columbus, 249 U. S. 399, and Ohio Citizens Trust Co. v. Air-Way Electric Appliance Corp. (D. C., Ohio), 56 F. Supp. 1010, merely held that performance of a contract is not excused because it becomes unprofitable. Thomson v. Thomson, 315 Ill. 521, held only that the rules of the Chicago Board of Trade were part of the contract and compliance with the rules did not constitute a breach. All but one or two involve contracts calling for a single act and not for a continuing performance by both parties over a long period of years as is the case here.

The case of Berg v. Erickson (C. C. A. 8), 234 Fed. 817, held that a drouth did not excuse performance by an agister where drouths were a matter of common knowledge and in contemplation of the parties and were not protected against by the terms of the contract.

If decisions of district courts affecting situations somewhat similar to this need be considered (petitioner cites only two of the many he says have arisen or will arise), it is pointed out that in Otto v. Orange Screen Co. (D. C., N. J.), 57 F. Supp. 134, in which the *licensee* sought cancellation, it does not clearly appear whether only aluminum, the use of which was prohibited, and no other metal could be used in the manufacture of the patented screen. Furthermore the court, apparently without considering the numerous pertinent authorities dealing with frustration, undertook to follow two state decisions involving real estate leases that had no application.

In Ohio Citizens Trust Co. v. Air-Way Electric Appliance Corp., supra, where also it was the licensee who sought relief on the basis of its own default and because of alleged frustration, the court considered the doctrine of frustration, but held that since manufacture had not been prohibited but only restricted the contract was not frustrated. It appeared that the unit royalty earned under the restricted production was substantially greater than the minimum royalty called for by the contract.

None of the cases relied on by the petitioner have application to the situation here presented, where the licensor is unable to perform his part of the contract by putting the licensee in a position to enjoy the use of the patent; where the patent is of no value for the time being because no one, not even the patentee himself, can use it; where neither party is at fault and one suffers no more than does the other; where time is not of the essence; where the license has many years still to run; where no change has occurred such as would occur in commercial ventures, construction contracts and cases of that character, but the parties will be in exactly the

same relative situations as they were when the suspension began, and where the party whose rights are sought to be forfeited has expended large sums of money in reliance on the continuance of the contract and is able, ready and willing to continue its performance to the substantial benefit of the licensor.

G. A. YOUNGQUIST,
A. E. CARLSEN,
Attorneys for Appellant.

F. W. THOMAS,
FOWLER, YOUNGQUIST, FURBER,
TANEY & JOHNSON,
Of Counsel.